

*Parchment Community Library*  
*Kalamazoo County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended September 30, 2008*

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## INDEPENDENT AUDITORS' REPORT

### Board of Trustees

### Parchment Community Library, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Parchment Community Library, Michigan, as of September 30, 2008, and for the year then ended, which collectively comprise the Parchment Community Library's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Parchment Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Parchment Community Library, as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Parchment Community Library has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

*Siegfried Crandall P.C.*

January 7, 2009

## **BASIC FINANCIAL STATEMENTS**

**Parchment Community Library**  
**STATEMENT OF NET ASSETS**  
*September 30, 2008*

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**ASSETS**

Current assets:

Cash	\$ 779,658
Accounts receivable	17,998
Prepaid expenses	8,369
Beneficial interest in assets held by foundation	<u>221,233</u>

Total current assets 1,027,258

Noncurrent assets:

Beneficial interest in assets held by foundation	50,000
Capital assets, net of accumulated depreciation	<u>1,063,377</u>

Total noncurrent assets 1,113,377

Total assets 2,140,635

**LIABILITIES**

Current liabilities - accounts payable 9,934

Noncurrent liabilities - compensated absences 8,725

Total liabilities 18,659

**NET ASSETS**

Invested in capital assets	1,063,377
Restricted for nonexpendable endowment	50,000
Unrestricted	<u>1,008,599</u>

Total net assets \$ 2,121,976

*See notes to the financial statements*

**Parchment Community Library**  
**STATEMENT OF ACTIVITIES**  
*Year ended September 30, 2008*

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**PROGRAM EXPENSES**

Recreation and cultural - library \$ 460,762

**PROGRAM REVENUES**

Charges for services 51,588

Operating grants and contributions 18,574

Total program revenues 70,162

**NET PROGRAM EXPENSES**

(390,600)

**GENERAL REVENUES**

Property taxes 445,745

Investment return (13,823)

Total general revenues 431,922

**NET CHANGE IN NET ASSETS**

41,322

**NET ASSETS - BEGINNING**

2,080,654

**NET ASSETS - ENDING**

\$ 2,121,976

*See notes to the financial statements*

**Parchment Community Library**  
**BALANCE SHEET - governmental funds**  
September 30, 2008

	<u>General</u>	<u>Stanley Stevens Memorial Nonexpendable Trust</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash	\$ 779,658	\$ -	\$ 779,658
Accounts receivable	17,998	-	17,998
Beneficial interest in assets held by foundation	<u>221,233</u>	<u>50,000</u>	<u>271,233</u>
Total assets	<u>\$ 1,018,889</u>	<u>\$ 50,000</u>	<u>\$ 1,068,889</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities - accounts payable	<u>\$ 9,934</u>	<u>\$ -</u>	<u>\$ 9,934</u>
Fund balances:			
Reserved for endowment	-	50,000	50,000
Unreserved:			
Designated	15,482	-	15,482
Undesignated	<u>993,473</u>	<u>-</u>	<u>993,473</u>
Total fund balances	<u>1,008,955</u>	<u>50,000</u>	<u>1,058,955</u>
Total liabilities and fund balances	<u>\$ 1,018,889</u>	<u>\$ 50,000</u>	<u>\$ 1,068,889</u>
Fund balances - total governmental funds			\$ 1,058,955
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 4) are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.			1,063,377
Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds.			8,369
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			<u>(8,725)</u>
Net assets of <i>governmental activities</i>			<u>\$ 2,121,976</u>

See notes to the financial statements

**Parchment Community Library**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds**

*Year ended September 30, 2008*

	<u>General</u>	<u>Stanley Stevens Memorial Nonexpendable Trust</u>	<u>Totals</u>
<b>REVENUES</b>			
Taxes	\$ 445,745	\$ -	\$ 445,745
State grants	8,217	-	8,217
Charges for services	3,829	-	3,829
Fines and forfeitures	47,759	-	47,759
Investment return	(13,823)	-	(13,823)
Other	10,357	-	10,357
	<u>502,084</u>	<u>-</u>	<u>502,084</u>
Total revenues			
	<u>502,084</u>	<u>-</u>	<u>502,084</u>
<b>EXPENDITURES</b>			
Recreation and cultural	421,884	-	421,884
Capital outlay	22,668	-	22,668
	<u>444,552</u>	<u>-</u>	<u>444,552</u>
Total expenditures			
	<u>444,552</u>	<u>-</u>	<u>444,552</u>
<b>NET CHANGE IN FUND BALANCES</b>	57,532	-	57,532
<b>FUND BALANCES - BEGINNING</b>	951,423	50,000	1,001,423
<b>FUND BALANCES - ENDING</b>	<u>\$ 1,008,955</u>	<u>\$ 50,000</u>	<u>\$ 1,058,955</u>
Net change in fund balances - total governmental funds			\$ 57,532
Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because:			
Capital assets:			
Amounts capitalized			74,781
Provision for depreciation			(89,451)
Increase in prepaid expenses			52
Increase in accrued liabilities - compensated absences			(1,592)
Change in net assets of <i>governmental activities</i>			<u>\$ 41,322</u>

*See notes to the financial statements*



**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Parchment Community Library, Michigan (the Library), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library (primary government). The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Library's financial statements. Also, the Library is not a component unit of any other entity.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. The effect of all interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the nonexpendable trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Library reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Stanley Stevens Memorial Nonexpendable Trust Fund is a permanent fund that accounts for resources legally held in trust, as an endowment, that are legally restricted to the extent that only earnings, and not principal, may be used to support the Library's programs.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB).

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*ii) Receivables* - All receivables are considered to be fully collectible, and all are due within one year.

*iii) Capital assets* - capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 40 years
Furniture and equipment	3 - 10 years
Books and a/v materials	10 years

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

iv) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

v) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Library. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Library levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The Library experienced no significant budget variances during the fiscal year.

NOTE 3 - CASH:

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. Except as follows, the Library's deposits are in accordance with statutory authority. The Library holds one savings account (valued at \$79,849) and nine certificates of deposit (total value of \$613,029) with banks that do not operate within the State. The certificates mature between 2008 and 2011, but are callable by the bank.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Library will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of September 30, 2008, the Library's bank balances of \$784,680 were fully insured, and were, therefore, not exposed to custodial risk.

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 4 - BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATION:**

Amounts shown as beneficial interest in assets held by foundation represent monies placed with the Kalamazoo Community Foundation (the Foundation) by the Library, specifying itself as the beneficiary. The Library and the Foundation are unrelated entities. The Library has the right, at any time, to receive from the Foundation, all or a portion of, the balance of such monies held by the Foundation. The Foundation, as custodian of such funds, continues to report the funds as assets of the Foundation, with a corresponding liability, agency non-endowed funds. The Library reports this asset at the present value of future payments expected to be received. The portion of the asset not considered expendable has been reported in the permanent fund.

**NOTE 5 - INVESTMENT RETURN:**

Investment return consists of the following:

	<u>General</u>
Interest earned	\$ 21,684
Depreciation in fair value of beneficial interest in assets held by foundation	<u>(35,507)</u>
Net investment return	<u>\$ (13,823)</u>

**NOTE 6 - CAPITAL ASSETS:**

Capital asset activity of the Library for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 1,415,906	\$ -	\$ -	\$ 1,415,906
Furniture and equipment	256,449	15,530	-	271,979
Books and a/v material	355,001	59,251	(21,739)	392,513
Subtotal	<u>2,027,356</u>	<u>74,781</u>	<u>(21,739)</u>	<u>2,080,398</u>
Less accumulated depreciation for:				
Buildings	(558,900)	(39,400)	-	(598,300)
Furniture and equipment	(236,676)	(10,800)	-	(247,476)
Books and a/v material	(153,733)	(39,251)	21,739	(171,245)
Subtotal	<u>(949,309)</u>	<u>(89,451)</u>	<u>21,739</u>	<u>(1,017,021)</u>
Governmental activities capital assets, net	<u>\$ 1,078,047</u>	<u>\$ (14,670)</u>	<u>\$ -</u>	<u>\$ 1,063,377</u>

**Parchment Community Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 7 - NONCURRENT LIABILITIES:**

At September 30, 2008, noncurrent liabilities consist of accrued employee benefits. The activity for the fiscal year was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Compensated absences	\$ 7,133	\$ 13,572	\$ (11,980)	\$ 8,725	\$ -

**NOTE 8 - CLAIMS ARISING FROM RISKS OF LOSS:**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Library has purchased commercial insurance for each of these claims and is neither self-insured, nor participates in a shared risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

## REQUIRED SUPPLEMENTARY INFORMATION

**Parchment Community Library**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL - General Fund**

Year ended September 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes	\$ 447,835	\$ 447,835	\$ 445,745	\$ (2,090)
State grants	1,700	1,700	8,217	6,517
Charges for service	4,000	4,000	3,829	(171)
Fines and forfeitures	35,300	35,300	47,759	12,459
Investment return	8,000	8,000	(13,823)	(21,823)
Other	1,600	1,600	10,357	8,757
	<u>498,435</u>	<u>498,435</u>	<u>502,084</u>	<u>3,649</u>
<b>EXPENDITURES</b>				
Recreation and cultural:				
Salaries and wages	196,074	196,074	200,713	(4,639)
Employee benefits	18,550	19,459	20,290	(831)
Payroll taxes	15,000	15,000	15,332	(332)
Operating supplies	9,000	8,913	8,182	731
Programming	4,000	4,087	4,337	(250)
Election resources	6,500	6,500	5,706	794
Audio/video	15,000	15,000	11,871	3,129
Books	45,000	45,000	47,380	(2,380)
Periodicals	6,100	6,100	5,337	763
Professional services	23,700	26,866	24,050	2,816
Postage	1,400	1,400	1,132	268
Telephone	6,500	6,500	5,567	933
Utilities	31,500	31,500	27,034	4,466
Repairs and maintenance	30,100	30,100	29,721	379
Insurance	9,000	9,000	7,695	1,305
Workshops/professional development	1,650	1,650	1,038	612
Miscellaneous	12,550	8,475	6,499	1,976
	<u>431,624</u>	<u>431,624</u>	<u>421,884</u>	<u>9,740</u>
Capital outlay	<u>24,000</u>	<u>32,100</u>	<u>22,668</u>	<u>9,432</u>
Total expenditures	<u>455,624</u>	<u>463,724</u>	<u>444,552</u>	<u>19,172</u>
<b>NET CHANGE IN FUND BALANCES</b>	42,811	34,711	57,532	22,821
<b>FUND BALANCES - BEGINNING</b>	<u>951,423</u>	<u>951,423</u>	<u>951,423</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 994,234</u>	<u>\$ 986,134</u>	<u>\$ 1,008,955</u>	<u>\$ 22,821</u>

January 7, 2009

To the Board of Trustees  
Parchment Community Library

We have audited the financial statements of the governmental activities and each major fund of the Parchment Community Library for the year ended September 30, 2008, and have issued our report thereon dated January 7, 2009. Professional standards require that we provide you with the following information related to our audit.

***Our Responsibility under U.S. Generally Accepted Auditing Standards***

As stated in our engagement letter dated October 15, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Parchment Community Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Parchment Community Library during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Library's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



The disclosures in the financial statements are neutral, consistent, and clear.

*Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended September 30, 2008.

*Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Parchment Community Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Communication Regarding Internal Control*

In planning and performing our audit of the financial statements of the Parchment Community Library as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Parchment Community Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Library has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Library has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Board of Trustees of the Parchment Community Library and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Sigfried Crandall P.C.*